The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

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Dear Client: Washington, Oct. 16, 2025

As the government shutdown drags on…

There's no clear end in sight, as both parties continue to dig in their heels and talk past each other. As things stand now, the federal funding freeze could go on for a few more weeks, possibly into Nov.

SHUTDOWN

Not all federal services have stopped, for now. Many agencies are open with skeleton crews. But services now available are at risk, as agencies exhaust their reserve funds. This possibility will become more likely as the Trump administration increases the number of furloughed federal employees.

Many basic services remain operational.

Airports are open, as air traffic control and security workers are "essential" and must report to work, but without full pay. However, these workers are increasingly calling in sick, causing flight delays and long lines at security. Expect this to get worse. Flight cancellations also are possible in the future.

Passport processing continues but wait times for new and renewed documents may grow longer. Some individual passport offices may be closed.

Economic Forecasts

GDP growth NEW
1.9% in '25,
1.7% in '26

Interest rates
10-year bond remains at 4.0% during labor market slowdown

Inflation
3.4% at end '25,
3.0% at end '26

Unemployment
4.3% at end '25,
4.5% at end '26

Crude oil
Trading in the mid- $60s per barrel for now

Federal Reserve regional rpts.
Only 3 of 12 districts report growth in consumer spending, production

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Medicare, Medicaid and Social Security benefits will continue. However, expect delays in some services. SNAP and WIC, the low-income food aid programs, are still operating, though with reserve money dwindling, it's uncertain for how long. If the shutdown lingers, the White House says it will use tariff revenue to fund WIC.

The National Park Service says its sites will be "as accessible as possible," including park roads, lookouts, trails and open-air memorials. But some park sites may be closed, and services at those that are open may be limited or unavailable.

The U.S. Postal Service is still delivering mail and post offices remain open throughout the shutdown, as the service doesn't depend on Congress for funding.

Amtrak isn't immediately affected and trains are running as scheduled, though a prolonged shutdown could have a long-term impact on the rail service.

The Internal Revenue Service remains open, though with limited service. Tax obligations still apply, and the IRS hasn't announced any deadline extensions. Student loan bills must be paid, and federal student financial aid will be distributed.

Agriculture Dept. food safety inspectors will remain on the job.

The Dept. of Veterans Affairs isn't being hit as hard as many other agencies. Benefits checks will continue to be processed and delivered, and VA medical centers and outpatient clinics will remain open. But VA benefits regional offices are closed.

As the shutdown continues, federal services increasingly will be affected. Information isn't easy to come by. Agencies have mostly stopped updating websites and social media accounts. Meanwhile, phone centers often aren't being staffed. For questions, your congressional representative's office may be the best bet.

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THE ECONOMY One practical effect of the shutdown: A blackout of some key economic data. The Sept. jobs report is already overdue. It will appear three working days after the shutdown eventually ends, followed three weeks later by the Oct. jobs report. Nov. jobs data will likely be reported one week later than normal, too. The Sept. report for the Consumer Price Index is slated to appear by Oct. 24, and then only as a result of furloughed statistics workers getting recalled to publish it, so that the government can publish Social Security's annual cost-of-living adjustment for 2026. Fortunately, that means the Federal Reserve will have Sept. inflation data by its Oct. 29 meeting. Policymakers won't know how retail sales did in Sept. until after the shutdown ends, but we think sales likely fell about 0.3%, due partly to the timing of Labor Day deals.

Nongovernment data will continue to get published as normal. The Fed produces industrial production data, the Bank Senior Loan Officer Survey on lending and various regional economic reports, none of which are affected by the shutdown. Privately produced reports on consumer sentiment, home prices, car sales and more will take on additional salience as economists and markets do without federal data.

Even though it will be flying partially blind, we look for the Fed to cut rates by another quarter of a point at its meeting in late Oct. Based on other indicators, we think the Fed will likely assume that job growth improved a little bit in Sept. from Aug.'s tepid pace, but not much, opening the door to lowering interest rates. Odds favor another quarter-point rate reduction at the Fed's Dec. 10 meeting.

One tailwind for consumer spending next spring: Larger tax refunds, due to the increased deductions included in the One Big Beautiful Bill tax overhaul. Average refunds should grow by about $750, taking the average amount near $3,700. Consumers typically spend much of this returned cash on big-ticket items like cars.

TRADE Tit-for-tat measures are reigniting U.S. and Chinese trade tensions. China announced export controls on its rare earths, critical minerals and magnets, including the technology for producing them. In retaliation, President Trump threatened an additional 100% tariff on Chinese imports beginning Nov. 1, as well as controls on exports of critical software to China.

The next thing to watch is whether Trump meets China's leader this month. Trump and President Xi Jinping are scheduled to meet in South Korea in late Oct. Previous instances of trade tensions between the countries show the two sides take a step back after the economic consequences of a trade war become apparent. So far, it seems rare earths are being used as bargaining chips by China. That said, Trump could take the repeat of the rare earths export controls as a step too far, and might go ahead with the additional tariffs, export controls and other measures.

China may now feel emboldened to ask for more concessions. Recent reports indicate that Beijing is seeking the elimination of the 20% tariffs the U.S. imposed earlier this year. Around 70% of mined rare earth production comes from China, and the country controls over 90% of the global output in the processing stage.

FINANCE Homeowners are acting quickly on the slightest drop in mortgage rates. The cost of a 30-year home loan fell to its lowest level in nearly a year, prompting a wave of refinancing over the four weeks through Sept. 17. Most folks who refinanced during the recent rate drop bought homes within the last three years and did so only to lower their rate, without taking any equity out. Cash-out refinances did rise during the same period, despite many borrowers taking on a higher rate. Most existing mortgages have a rate under 5%. Refinancing is up 59% from a year ago.

More homeowners will refinance as mortgage rates drop over the next year. If 30-year rates were to fall into the low 6% range, an additional 5 million borrowers would save money by refinancing, after factoring in closing costs. 7 million more would benefit from refinancing if mortgage rates drop below the 6% threshold.

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RARE EARTHS

The White House is now mulling an Operation Warp Speed for rare earths in response to China's move to tighten export controls on the minerals, which are used in many modern technologies, from electric motors to jet engines. What exactly this will entail remains unclear. The original Operation Warp Speed was able to hasten the development and mass production of COVID-19 vaccines to less than a year. It's unlikely that Uncle Sam can accomplish the same feat with rare earths, but crucially, officials already have a significant head start.

It's the administration's latest step in pursuit of rare earth independence. So far, this has included taking equity stakes in companies such as MP Materials, which currently operates America's only rare earth mine and processing facility, in Calif., and has also started manufacturing magnets from the minerals in Texas. President Trump has also expanded price supports for U.S. rare earth projects. Meanwhile, the Dept. of Defense has started stockpiling more critical minerals, using billions of dollars that were included in the One Big Beautiful Bill Act.

The private sector may be following the government's lead. J.P. Morgan plans to invest in rare earth firms as part of a $1.5 trillion critical industries initiative.

Breaking China's hold over the rare earth supply chain will be difficult. As noted on page 2, Beijing has a chokehold on the global rare earth industry. China first recognized the strategic importance of rare earths in the early 1990s and has aggressively defended its dominance, restricting quantities to countries with which it is at odds and undercutting foreign competitors with low prices.

HEALTH CARE

Medicare Advantage enrollment may decline for the first time ever in 2026. Insurers expect 34 million to sign up for the privatized Medicare plans, down from nearly 35 million this year. That's compared with 3.7% growth in 2025.

Many of the big industry players are planning or considering benefit cuts in an effort to preserve profits. Market leader UnitedHealth will join rivals Humana and CVS in scaling back their offerings and exiting certain markets next year.

This would be one of Medicare Advantage's first big setbacks. The program had steadily grown to eclipse traditional Medicare and last year accounted for more than half of all Medicare plans. Next year, MA's share is expected to fall to 48%.

The Trump administration will now turn its attention to medtech imports. The Dept. of Commerce has opened up another Section 232 investigation, which will scrutinize a huge list of health care–related products, from surgical masks and other personal protective equipment to pacemakers and blood glucose monitors. Ditto, hospital equipment like wheelchairs, beds, syringes and intravenous bags.

Despite post-pandemic efforts to boost domestic production of such items… The U.S. still imported $75 billion in medical devices and supplies in 2024.

AG

U.S. farmers will keep having a tough time with their two main cash crops. Corn is on track for a record harvest of 16.8 billion bushels, with yields still at a record 186.7 bushels per acre, despite pockets of disease and late dry weather.

But even with exports also expected to reach an all-time high this year… Prices will remain under pressure, with corn stocks among the largest in recent memory. With agricultural input prices like fertilizer also running high, cash receipts from the crop will be the lowest since 2007, adjusted for inflation.

Soybeans are in an even more difficult spot, with production still coming in at a higher-than-expected 53.5 bushels per acre, adding to the 10 million bushels the U.S. already has in stock. Exports to top customer China are at a standstill.

The Trump administration is hoping to find other international customers for U.S. soybeans, pushing other top buyers like the EU, Mexico and Indonesia to buy more and trying out untested markets such as India, Vietnam and Nigeria.

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ENERGY Utility-scale battery storage deployments are poised for a banner 2025, hitting a second-quarter record of 4.9 gigawatts from April through June of this year. That's a 63% increase from the same period a year ago. Overall, energy storage installations are expected to reach 19 GW by the end of the year.

But the next few years will be fraught with setbacks. Industry watchers expect deployments to fall by 12% next year, due to ongoing supply chain issues and tightening restrictions on local solar and storage permitting. It's possible that storage deployments won't return to 2025 levels until the end of the decade.

The industry has reasons for long-term optimism. Unlike wind and solar, tax incentives for storage were spared from cuts in the One Big Beautiful Bill Act that Republicans passed this summer. Plus, utilities continue to find more uses for grid-scale batteries. These include price arbitrage...storing power when it's cheap and deploying it during peak demand hours...along with frequency regulation.

TECH & TELECOM Look for tougher penalties for vandalism of communications networks. Attacks on telecom systems have risen sharply, alarming the industry and policymakers. One recent report counted more than 15,000 incidents of theft and vandalism of broadband and wireless networks from June 2024 to June 2025, disrupting over 9.5 million customers. Brazen attacks are expected to grow worse.

Disruptions hit federal buildings, military bases, hospitals, 911 centers and other critical facilities, prompting a recently formed industrywide task force.

Look for more states to make attacks a felony, as 28 states already do. Such laws appear to help combat crime, but insiders are critical of lax prosecution.

Congress will take a closer look and new legislation has good odds. One prominent idea, already in a federal bill, would extend the same protections that government systems currently have to private networks, closing a legal gap.

A new thing to watch for when looking at online profiles of job candidates: The AI-generated professional headshot. Google's updated imaging tool can take a random photo and change the lighting, angle, background, clothing and more, while making the image look higher-resolution and more professional. Google touts the tool, based on its AI model Gemini, for professional headshots, without needing expensive gear, complex editing software or technical know-how. Google even suggests telling the AI to make the new photo "exude confidence, professionalism and approachability," a change far beyond any old-school editing.

The trend follows the rapid rise of AI-produced cover letters and résumés.

PEACE DEAL Even if the recently agreed-to Israel-Hamas cease-fire in the Gaza Strip holds... Expect a bumpy path forward, as evidenced by the two sides' ongoing disputes over hostage releases and humanitarian aid. Meanwhile, Hamas is now cracking down on its political rivals, despite pledges to eventually disarm and give up control of Gaza.

Much will depend on President Trump's willingness and ability to mediate. He has said that Israel could resume military operations if Hamas steps out of line.

Meanwhile, Trump is turning to the second big test of his peace initiative: Rebuilding Gaza. The president hopes to make the southern city of Rafah, which for now remains under Israeli control, a model for this broader, long-term effort.

Yours very truly,

Knight Kiplinger

Oct. 16, 2025 THE KIPLINGER WASHINGTON EDITORS

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